

**MINUTES OF THE
NATURAL RESOURCES APPROPRIATIONS SUBCOMMITTEE
January 25, 2007
Room W130, West Office, Building, State Capitol Complex**

MEMBERS PRESENT: Sen. Dennis Stowell, Co-Chair
Rep. Ben Ferry, Co-Chair
Sen. Margaret Dayton
Rep. Roger Barrus
Rep. Jack Draxler
Rep. Carl Duckworth
Rep. Kerry W. Gibson
Rep. James R. Gowans
Rep. John G. Mathis
Rep. Michael E. Noel
Rep. Steve Sandstrom

MEMBERS ABSENT: Sen. Dmitrich and Sen. Valentine

STAFF: Ivan Djambov, Fiscal Analyst
Diane Obeshaw, Committee Secretary

Note: A list of visitors and a copy of handouts are filed with the committee minutes.

SPEAKERS: DWR Director Dennis Strong, DWR Budget Officer Terry Jackson, DWR Deputy Director Eric Millis, DWR Assistant Director Todd Adams, Director for the Division of Oil, Gas and Mining John Gaza, and his Financial Analyst Paula Zahn.

Rep. Ferry called the meeting to order at 2:22 p.m. And because there wasn't a quorum they didn't pass on the minutes.

Fiscal Analyst Ivan Djambov, began by discussing the Budget Brief for the Division of Water Resources (DWR). He stated that the DWR is considered to be the water resource authority for the state, assuring the orderly planning, development and protection of Utah's water. They do this through conservation, planning and financial assistance programs.

He went on with the Issues and Recommendations for that agency, explaining that in the last few years the Division has performed several major studies which have indicated that there will be a need for monies for future water development. The needs fall in the following categories:

1) Development for new large water projects, such as Bear River development and Lake Powell pipeline. 2) Replacing aging water facilities, much of which are over 50 years old. 3) Population growth, which increases demand for water. 4) Water conservation, which will require efforts to educate the public, but also funding to construct the physical facilities that will enable better utilization of the existing water supply. He also discussed a couple of items that were included in the 2006 General Session through H.B. 47 'Sales Tax Diversion for Water Projects and Water

Financing' but which the money was not appropriated to the Division. So the Analyst recommended the Committee provide the following appropriations from the Division's Restricted Conservation & Development Fund: 1) For the Cloud Seeding Program: \$150,000 supplemental for FY 2007 and \$150,000 ongoing for FY 2008. 2) For two additional employees: \$120,000 supplemental for FY 2007 and \$200,000 ongoing for FY 2008.

He then went on to discuss the accountability details of the division and how it has undertaken the task to reduce the water usage in the state the goals they have set vs the actual results. So far they have been ahead of schedule. The state's water conservation goal is to reduce per capital M & I water use by at least 25% before 2050 and they seem to be on target so far. This division has 3 or 4 line items which are mainly funded by general funds and the restricted conservative funds.

DWR's Director Dennis Strong with the assistance of his Budget Officer Terry Jackson, along with Deputy Director Eric Millis, and Asst. Director Todd Adams, spoke about their funding programs. Mr. Strong began by reminding the Committee that the Legislature has since 1947 been appropriating that division, funds beginning with \$250 million which has turned into \$500 million. The money they've been receiving has been repaid, some of that has been interest. Of the \$250 million, \$1.4 billion has been constructed. The use of the water that's being conserved, as Mr. Djambov mentioned earlier is to meet future M & I water needs.

Mr. Strong continued talking about how the snow fall and water precipitation has been affecting our state. He says that although our water levels have been low, our precipitation has been high. He continued by reiterating some of the items that Mr. Djambov mentioned earlier such as their goals and the programs they plan on implementing including the Bear River and Lake Powell pipelines. He concluded by talking about the staff employees they've had earlier that has either resigned or retired. He said they still hire and retain good people, but they're having to pay more to keep them.

Mr. Djambov, the Fiscal Analyst then spoke about the Budget Brief for the Division of Oil, Gas and Mining. He began by telling the Committee how the Division of Oil, Gas and Mining regulates exploration for and development of Utah's oil, gas, coal and other mineral resources. When exploration and developmental activities are completed, the Division ensures that oil and gas wells are properly abandoned, and mining sites are satisfactorily reclaimed.

Mr. Djambov then went on to talk about the issues and recommendations for that Division. He stated that currently one of the major challenges for the Division is to keep pace with the growth in the energy and minerals sector of the economy, while ensuring adequate service to both the regulated community and the public.

He continued by stating how the division is trying to be proactive in analyzing the market trends and activities of the industries they regulate. The administration's goal is to provide strategic

plans for the energy and minerals development in Utah and to expedite the permitting and monitoring of industrial activities. To accomplish this, the Division is requesting funding to hire an additional employee to conduct mineral research and analysis. The Analyst recommends the Committee provide the FY 2008 an ongoing appropriation of \$75,000 from the GFR - Oil and Gas Conservation Account.

According to the Analyst, the Division is also requesting additional funding to purchase laptop computers with wireless capability to be used by staff on site in remote areas. It is anticipated that the new technology will improve staff's efficiency and will provide information in a timely manner. The Analyst recommends the Committee provide for FY 2008 a one-time appropriation of \$40,000 from the restricted account.

Mr. Djambov then went on to discuss information about how the Division has an agreement with the Secretary of Interior to provide those services for the Coal Reclamation Program. They're funded by agreement 88% of federal funds and 12% of state funds. He also stated that in FY 2006, this program issued 33 coal mining permits. This number has increased from the prior year by 22 percent. He says that their workload has also been increasing. The funding source has been cut on the federal level, and the cost and workload has increased. So the Division is projecting major shortfalls and some challenges in FY 2007 and FY 2008. They're projecting approximately \$400,000 just in FY 2007 and will be most likely be higher next year.

Mr. Djambov proposed a possible solution this Committee could provide: He said, The Oil and Gas program constitutes 30% of the Division of Oil, Gas and Mining's budget's and approximately 33% of the FTE's of the Division are in that program. So the Oil and Gas program is about one-third of the whole Division, but the Division's Administration program which provides support for the Oil and Gas program is funded by only 9% of the Oil and Gas restricted account. So the Oil and Gas Account is funded 100% by the Oil and Gas restricted funding. The Administration that provides services for this program is funded only 9% by this restricted account. If the Oil and Gas restricted funds were to proportionately pay for the Oil and Gas program for the services they receive from the Oil and Gas Administration and the Legislation can appropriate additional \$400,00 from that restricted account to the Divisions Administration and reduce the general funding portion of the Administration and make it available to be reallocated. His proposal is for the Sub-Committee to do this transaction and to reallocate this \$400,000 and apply them towards the short fall in the Coal Program. This transaction could potentially lower the general funds. He suggested that this is one way that the shortfall in the Coal program can be addressed.

The next speaker was John Baza who is the Director for the Division of Gas and Mining, along with his assistant, Paula Zahn who is the Financial Analyst with that Division. Mr. Baza reiterated the Analyst's recommendation by sharing their need for a Market and Mineral Research Analyst as well as their need for new Wireless Equipment. He went on to share how his Division has suffered shortfalls in the last few years mainly because the federal funding has

decreased while their expenses have increased. He stated that previous shortfalls were absorbed as turnover and retirements provided some relief. He also stated that the Oil, Gas and Mining has initiated actions to address the current shortfall, including reassignment of personnel, freezing expenditures, and re-adjusting the federal grant cycle. He went on to say that fee based services to the coal industry would provide minimal help as the federal coal grant would decrease proportionately to the fees collected. Lastly Mr. Baza went on to say that in FY 2008, federal shortfall estimated at approximately \$640,000-requires planning for workforce reductions because the program is comprised of 91% Personal Services.

MOTION: Rep. Dayton moved to adjourn the meeting at 4:00 p.m. which was passed unanimously with Rep. Draxler absent for the vote.

Rep. Ben Ferry, Co-Chairman

Sen. Dennis Stowell, Co-Chairman